

East Bay Regional Park District

Oakland, California

*Report to the Board of Directors
and Management*

For the year ended December 31, 2008

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C&L
Caporicci & Larson
Certified Public Accountants

East Bay Regional Park District
Report to the Board of Directors and Management
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June 26, 2009

To the Board of Directors and Management
of the East Bay Regional Park District
Oakland, California

In planning and performing our audit of the financial statements of the East Bay Regional Park District (District) as of and for the year ended December 31, 2008, in accordance with generally accepted auditing standards in the United States of America, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be control deficiencies and significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Control deficiencies in internal control identified in the audit are discussed on page 5 and 6 of this report.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies in internal control identified in the audit are discussed on page 3 of this report.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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of the East Bay Regional Park District
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The District's written responses to the control deficiencies and the significant deficiencies identified in our report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, members of Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson

Caporicci & Larson
Oakland, California

East Bay Regional Park District
Report to the Board of Directors and Management
For the year ended December 31, 2008

SIGNIFICANT DEFICIENCIES

1. Prior Period Adjustments

Observation

During fiscal year 2008, the District recorded prior period adjustments related to Capital Assets, Long-Term Debt and Compensated Absences. The adjustments were made to correct the following:

- The District incurred expenses for projects that were built on behalf of other entities. These improvements were not owned by the District. However, the District capitalized these expenses included the improvements as part of their Capital Assets in the government-wide financial statements as part of the GASB 34 conversion. Prior period adjustments were made to remove these improvements from government-wide financial statements.
- The District issued 2006 Refunding Bonds in prior years. The transactions were recorded properly in the fund financial statements; however, the District did not capitalize the cost of issuance and record deferred gain on refunding in the government-wide statements. In the government-wide financial statements, the costs of issuance and deferred gains on refunding were recorded along with the related amortization.

All of the above transactions were recorded correctly in the fund financial statements. The adjustments only impacted the government-wide financial statements. The net impact was a decrease of \$3,193,152 to the beginning net assets as of January 1, 2008.

Recommendation

We recommend that the District review all current year transactions more carefully to avoid future adjustments to prior periods.

East Bay Regional Park District
Report to the Board of Directors and Management, Continued
For the year ended December 31, 2008

SIGNIFICANT DEFICIENCIES, Continued

1. Prior Period Adjustments, Continued

Management Response

In 2007 the District completed the initial valuation and recordation of our capital assets as required by GASB 34. During 2008 District staff continued to review the many complex interagency land tenure and capital agreements associated with District facilities and became more knowledgeable about the nuances related to the recording of capital assets. Capital projects are constructed on land owned by the District and used by the District, land owned by the District and leased to other entities, land owned by others and leased by the District. The individual provisions of each lease, license and agreement must be closely reviewed to ascertain the correct recording of capital assets. Staff believes that we are now current in this matter, and notes that new procedures have been developed and implemented to review all future contracts and agreements to determine correct ownership of assets constructed in the future by the District.

Recording gain on refunding and capitalizing cost of issuance in relationship to the District's 2006 debt issue were done incorrectly in the prior year government-wide financial statements. These items were discovered and corrected in 2008. The 2008 refunding debt was correctly recorded. Detailed workpapers were included in the 2008 audit workpaper files. These workpapers provide a sample for correct recording of all future debt transactions.

East Bay Regional Park District
Report to the Board of Directors and Management, Continued
For the year ended December 31, 2008

CONTROL DEFICIENCIES

1. Grant Reconciliations

Observation

The District has in place a process to track grant expenditures and revenues. The tracking method reports grant expenditures based on projects instead of based on the individual grants. As the District incurred expenditures for a particular project, it's is recorded in the tracking system, regardless of whether under the grant terms it's allowable or not. When the project is closed, the District reconciles and allocates the expenditures for each funding source for the specific project to ensure the revenue and expenditures are allowable within that grant.

Since the reconciliation is not performed until the projects are closed, we noted during our review of grant expenditures that these listing was not accurate as of December 31, 2008. This inaccuracy affects the single audit expenditures that were reported in the Schedule of Expenditure of Federal Award as those expenditures were not allowable. In addition, this listing was used by the Finance Department to accrue Grants Receivable and Deferred Revenue at year-end. The unreconciled listing caused Grants Receivable and Deferred Revenue to be overstated by \$957,966. At December 31, 2008, the Grants Receivable and Deferred Revenue were corrected.

Recommendation

We recommend that the District develop the year-end closing procedures to ensure that all of grant expenditures and revenues are reconciled.

Management Response

Staff accepts the Auditor's recommendation.

Information related to value of grants revenue receivable, and the associated deferred revenues has been historically received by the Finance Department from the Grant Department. Based on this audit review, during 2009 Grant Department received guidance on the correct information required for year end posting and Grants and Finance corrected and reconciled the 2008 listing. In future Finance will work more closely with Grant Department, and will review information submitted, to ensure correct amounts are recorded in the District financial statements at year end.

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CONTROL DEFICIENCIES

2. Year-End Journal Entry

Observation

During our review of the year-end accruals, there was a significant entry that was not recorded properly. The District has an agreement with a bank related to the lease-purchase of a police helicopter. The District already received the funding in prior years, which was kept in the escrow account and reported as Restricted Cash. In October 2008, the District requested reimbursement from the escrow account for the expenditure incurred. As of year-end, the transfer from escrow account (restricted cash) to unrestricted cash was not completed. The District recorded \$2,492,909 as Account Receivable and Deferred Revenue as of December 31, 2008. There should be no journal entry recorded for the cash transfer request.

Adjusting entries were made to reduce the Account Receivable and Deferred Revenue by \$2,494,909.

Recommendation

We recommend that the District develop procedures to ensure year-end journal entries are properly recorded.

Management Response

Staff accepts the Auditor's recommendation.

The helicopter purchase involved a complex lease-purchase agreement, and the related process to install specialized equipment in the helicopter changed vendors during the process, further complicating the reconciliation and characterization of the accounts. In the future Finance Department management will review such unusual items more closely and attend more carefully to the approach used to post them at year end.